

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GALLATIN COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Gallatin County Fiscal Court for fiscal year ended June 30, 2010.

We have issued unqualified opinions on the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$5,946,513 as of June 30, 2010. The fiscal court had unrestricted net assets of \$1,760,299 in its governmental activities as of June 30, 2010. The fiscal court had total debt principal as of June 30, 2010 of \$4,333,106 with \$184,846 due within the next year.

Report Comment:

2010-01 Expenditures Should Not Exceed Budget Appropriations

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Kenneth McFarland, Gallatin County Judge/Executive

Honorable Kenny French, Former Gallatin County Judge/Executive

Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Gallatin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Gallatin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of June 30, 2010, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gallatin County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2011 on our consideration of Gallatin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2010-01 Expenditures Should Not Exceed Budget Appropriations

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

March 23, 2011

GALLATIN COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Kenny French	Former County Judge/Executive
Dudley Gullion	Magistrate
Joel Shinkle	Magistrate
Jeff Wallace	Magistrate
Eric Moore	Magistrate

Other Elected Officials:

John G. Wright	County Attorney
Jerry Webb	Jailer
Tracy Miles	County Clerk
Nelson Brown	Sheriff
Ruth Middleton	Property Valuation Administrator
Jack Hughes	Coroner

Appointed Personnel:

Denny French	Deputy Judge/Executive
Denny French	Planning & Zoning Administrator
Lesa Bullard	County Treasurer
Lesa Bullard	Occupational Tax Administrator
Larry Simpson	Finance Officer
Larry Simpson	Personnel/Payroll Officer
Mike Satchwell	Road Supervisor
Chris Curtis	911 Administrator
Sherri Campbell Papke	Dog Warden

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GALLATIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

GALLATIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,793,570
Total Current Assets	<u>1,793,570</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	1,315,000
Buildings	3,682,265
Equipment	320,012
Vehicles	859,994
Infrastructure	2,308,778
Total Noncurrent Assets	<u>8,486,049</u>
Total Assets	<u>10,279,619</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations	184,846
Total Current Liabilities	<u>184,846</u>
Noncurrent Liabilities:	
Financing Obligations	4,148,260
Total Noncurrent Liabilities	<u>4,148,260</u>
Total Liabilities	<u>4,333,106</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	4,152,943
Restricted For:	
Capital Projects	33,271
Unrestricted	1,760,299
Total Net Assets	<u><u>\$ 5,946,513</u></u>

The accompanying notes are an integral part of the financial statements.

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GALLATIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

GALLATIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Functions/Programs Reporting Entity	Program Revenues Received				Net (Expenses) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
General Government	\$ 1,702,944	\$ 132,524	\$ 122,193	\$	\$ (1,448,227)
Protection to Persons and Property	1,435,394	659,891	271,225		(504,278)
General Health and Sanitation	80,486	13,376			(67,110)
Social Services	25,858				(25,858)
Recreation and Culture	574,981		791		(574,190)
Roads	684,960	3,705	345,985	397,970	62,700
Debt Service	404,456		228,850		(175,606)
Capital Projects	51,854			577,572	525,718
Total Governmental Activities	<u>\$ 4,960,933</u>	<u>\$ 809,496</u>	<u>\$ 969,044</u>	<u>\$ 975,542</u>	<u>\$ (2,206,851)</u>
General Revenues:					
Taxes:					
					390,125
					51,437
					95,584
					698,810
					147,301
					186,523
					273,581
					30,588
					1,873,949
					(332,902)
					6,279,415
					\$ 5,946,513

The accompanying notes are an integral part of the financial statements.

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GALLATIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

GALLATIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	General Fund	Road Fund	State Grants Fund	Ambulance Fund
ASSETS				
Cash and Cash Equivalents	\$ 469,574	\$ 694,660	\$ 35	\$ 31,206
Total Assets	<u>469,574</u>	<u>694,660</u>	<u>35</u>	<u>31,206</u>
FUND BALANCES				
Reserved for:				
Encumbrances	2,205	1,506		12,896
Capital Projects Fund				
Economic Development				
Unreserved:				
General Fund	467,369			
Special Revenue Funds		693,154	35	18,310
Total Fund Balances	<u>\$ 469,574</u>	<u>\$ 694,660</u>	<u>\$ 35</u>	<u>\$ 31,206</u>

The accompanying notes are an integral part of the financial statements.

GALLATIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2010
(Continued)

Economic Assistance Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 224,004</u>	<u>\$ 374,091</u>	<u>\$ 1,793,570</u>
<u>224,004</u>	<u>374,091</u>	<u>1,793,570</u>
	9,025	25,632
	33,271	33,271
224,004		224,004
		467,369
	331,795	1,043,294
<u>\$ 224,004</u>	<u>\$ 374,091</u>	<u>\$ 1,793,570</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 1,793,570
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	10,678,491
Accumulated Depreciation	(2,192,442)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(4,333,106)
Net Assets Of Governmental Activities	<u>\$ 5,946,513</u>

The accompanying notes are an integral part of the financial statements.

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GALLATIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

GALLATIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	General Fund	Road Fund	State Grants Fund	Ambulance Fund
REVENUES				
Taxes	\$ 1,290,687	\$	\$	\$
In Lieu Of Taxes	132,477			
Excess Fees	186,523			
Licenses And Permits	75,462			
Intergovernmental	390,544	589,852	559,878	10,084
Charges For Services	13,376	2,555		655,446
Miscellaneous	65,302	81,267		35,331
Interest	8,833	18,630		151
Total Revenues	<u>2,163,204</u>	<u>692,304</u>	<u>559,878</u>	<u>701,012</u>
EXPENDITURES				
General Government	752,872			
Protection to Persons and Property	184,535			764,563
General Health And Sanitation	78,522			
Social Services	24,913			
Recreation and Culture	81,796		352,726	
Roads		724,315		
Debt Service	336,375	47,608	207,152	
Capital Projects	35,054			
Administration	715,688	54,035		74,495
Total Expenditures	<u>2,209,755</u>	<u>825,958</u>	<u>559,878</u>	<u>839,058</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(46,551)</u>	<u>(133,654)</u>		<u>(138,046)</u>
Other Financing Sources (Uses)				
Transfers from Other Funds	600			82,000
Transfers to Other Funds	(399,993)			(600)
Total Other Financing Sources (Uses)	<u>(399,393)</u>			<u>81,400</u>
Net Change in Fund Balances	(445,944)	(133,654)		(56,646)
Fund Balances - Beginning (Restated)	915,518	828,314	35	87,852
Fund Balances - Ending	<u>\$ 469,574</u>	<u>\$ 694,660</u>	<u>\$ 35</u>	<u>\$ 31,206</u>

The accompanying notes are an integral part of the financial statements.

GALLATIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Economic Assistance Fund	Non-Major Funds	Total Governmental Funds
\$	\$ 92,526	\$ 1,383,213
		132,477
		186,523
		75,462
	401,544	1,951,902
		671,377
	14,587	196,487
1,742	1,234	30,590
1,742	509,891	4,628,031
		752,872
	475,731	1,424,829
	607	79,129
	500	25,413
	171,816	606,338
		724,315
	52,663	643,798
	16,800	51,854
	53,785	898,003
	771,902	5,206,551
1,742	(262,011)	(578,520)
	415,210	497,810
	(97,217)	(497,810)
	317,993	
1,742	55,982	(578,520)
222,262	318,109	2,372,090
\$ 224,004	\$ 374,091	\$ 1,793,570

The accompanying notes are an integral part of the financial statements.

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**GALLATIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

**GALLATIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ (578,520)
<p>Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Capital Outlay	398,101
Depreciation Expense	(391,825)
<p>The Issuance of Long-term Debt Provides Current Financial Resources to Governmental Funds While Principal Payments on Long-term Debt Are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions, However, Have No Effect on Net Assets.</p>	
Financing Obligations Principal Payments	<u>239,342</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (332,902)</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Gallatin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Gallatin County Public Properties Corporation

The Gallatin County, Kentucky Public Properties Corporation (Corporation) cannot be sued in its own name without recourse to the Gallatin County Fiscal Court, which appoints a voting majority consisting of Fiscal Court members and the County Attorney. The Fiscal Court is able to impose its will on the Corporation, as the Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the renovation and financing of the County's courthouse. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within Gallatin County's financial statements as the Courthouse Renovations Fund.

C. Gallatin County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Gallatin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Gallatin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Major individual governmental funds are reported as separate columns in the financial statements. The County has no proprietary or fiduciary funds.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

State Grants Fund - The purpose of this fund is to account for grant monies received from both state and federal agencies. The funds may be used for completing major projects or specific operating expenses.

Ambulance Fund - This fund accounts for ambulance services provided to the residents of Gallatin County. The primary source of revenue comes from ambulance services.

Economic Assistance Fund - The source of these funds was a result of repayment of grant proceeds due to a company not meeting grant requirements. The Cabinet for Economic Development requires these funds to be used for economic development purposes that have prior approval of the Cabinet.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, 911 Fund, 911 Wireless Fund, Tourism Fund, AOC Fund, and Courthouse Renovations Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, State Grants Fund, Ambulance Fund, Economic Assistance Fund, 911 Fund, 911 Wireless Fund, Tourism Fund, and AOC Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Courthouse Renovations Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	<u>Capitalization Threshold</u>	<u>Useful Life (Years)</u>
Land Improvements	\$ 12,500	10-60
Buildings	25,000	10-75
Equipment	5,000	3-25
Vehicles	5,000	5-15
Infrastructure	20,000	2-40

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, there are no related organizations of Gallatin County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the Tri-County Kentucky Airport Board is considered a joint venture of the Gallatin County Fiscal Court.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,315,000	\$	\$	\$ 1,315,000
Construction In Progress	3,264,079		(3,264,079)	
Total Capital Assets Not Being Depreciated	4,579,079		(3,264,079)	1,315,000
Capital Assets, Being Depreciated:				
Buildings	736,000	3,280,879		4,016,879
Vehicles	1,372,138	78,213		1,450,351
Equipment	652,659	18,387		671,046
Infrastructure	2,940,514	284,701		3,225,215
Total Capital Assets Being Depreciated	5,701,311	3,662,180		9,363,491
Less Accumulated Depreciation For:				
Buildings	(267,835)	(66,779)		(334,614)
Vehicles	(492,290)	(98,067)		(590,357)
Equipment	(302,705)	(48,329)		(351,034)
Infrastructure	(737,787)	(178,650)		(916,437)
Total Accumulated Depreciation	(1,800,617)	(391,825)		(2,192,442)
Total Capital Assets, Being Depreciated, Net	3,900,694	3,270,355		7,171,049
Governmental Activities Capital Assets, Net	\$ 8,479,773	\$ 3,270,355	\$ (3,264,079)	\$ 8,486,049

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 68,869
Protection to Persons and Property	100,879
General Health and Sanitation	1,357
Recreation and Culture	8,289
Social Services	445
Roads	211,986
Total Depreciation Expense - Governmental Activities	<u>\$ 391,825</u>

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt

A. Mars Road

On May 27, 2004, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$370,000 at a variable interest rate in order to finance the improvements of Mars Road so that it may be a part of the county road system. Payments of this debt are to be made by the property owners located on Mars Road. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Interest is paid on a monthly basis and a principal payment is made annually until termination of the lease on July 20, 2029.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 10,000	\$ 11,381
2012	10,000	11,004
2013	10,000	10,583
2014	10,000	10,176
2015	10,000	14,689
2016-2020	75,000	39,371
2021-2025	80,000	28,771
2026-2029	85,911	10,908
Totals	<u>\$ 290,911</u>	<u>\$ 136,883</u>

B. Sugar Bay Road

On May 27, 2004, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$160,000 at a variable interest rate in order to finance the improvements of Sugar Bay Road so that it may be a part of the county road system. Payments of this debt are to be made by the property owners located on Sugar Bay Road. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Interest is paid on a monthly basis and a principal payment is made annually until termination of the lease on July 20, 2029.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

B. Sugar Bay Road (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 5,000	\$ 3,922
2012	5,000	3,729
2013	5,000	3,521
2014	5,000	3,317
2015	5,000	3,110
2016-2020	25,000	12,525
2021-2025	25,000	7,371
2026-2028	27,098	2,928
Totals	<u>\$ 102,098</u>	<u>\$ 40,423</u>

C. Land-County Park and Fairgrounds

On September 15, 2005, Gallatin County entered into a twenty-year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$820,000 at a variable interest rate in order to finance the acquisition of 155 acres of land for a county park and fairgrounds. Interest is paid on a monthly basis and a principal payment is made annually until termination of the lease on January 20, 2026.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 25,000	\$ 28,036
2012	30,000	27,440
2013	30,000	26,163
2014	35,000	24,812
2015	35,000	23,325
2016-2020	205,000	92,560
2021-2025	280,000	42,348
2026	38,213	1,188
Totals	<u>\$ 678,213</u>	<u>\$ 265,872</u>

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

D. Courthouse Renovations

On June 30, 2006, Gallatin County entered into a twenty-one year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$2,498,784 in order to finance the renovations of the Gallatin County Courthouse. The Courthouse will be subleased to the Administrative Office of the Courts (AOC) of the Commonwealth of Kentucky for use as court facilities. Under the sublease agreement, the financing obligation payments of the County are to be paid directly to the Trustee by AOC and the Fiscal Court is obligated to provide operation, maintenance, insurance and repair of the project. Interest is paid on a monthly basis and principal payments are paid on a semi-annual basis until termination of the lease on November 20, 2026. The rate in the lease was fixed at 4.49% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 85,706	\$ 113,294
2012	89,875	109,125
2013	94,789	104,211
2014	99,788	99,212
2015	105,198	93,802
2016-2020	614,339	380,661
2021-2025	794,548	200,452
2026-2027	383,011	14,989
Totals	<u>\$ 2,267,254</u>	<u>\$ 1,115,746</u>

On June 28, 2007, Gallatin County entered into a twenty year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$375,808 in order to further finance the renovations of the Gallatin County Courthouse. As above, the Courthouse will be subleased to the Administrative Office of the Courts (AOC) of the Commonwealth of Kentucky for use as court facilities. Under the sublease agreement, the financing obligation payments of the County are to be paid directly to the Trustee by AOC and the Fiscal Court is obligated to provide operation, maintenance, insurance and repair of the project. Interest is paid on a monthly basis and principal payments are paid on a semi-annual basis until termination of the lease on May 20, 2027. The rate in the lease was fixed at 5.157% through the use of an interest rate swap between the trustee and a third party financial institution. The trustee has the right to charge any costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

Principal payment requirements and scheduled interest for the remaining term of the agreement, excluding any additional rentals resulting from the interest rate swap, are as follows:

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

D. Courthouse Renovations (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 12,976	\$ 16,874
2012	13,643	16,207
2013	14,352	15,498
2014	15,095	14,755
2015	15,878	13,972
2016-2020	92,596	56,654
2021-2025	119,184	30,066
2026-2027	56,874	2,826
Totals	<u>\$ 340,598</u>	<u>166,852</u>

On July 10, 2001, the Fiscal Court entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that AOC agrees to pay 100% of the debt service requirements. The lease does not require the Fiscal Court to make any rental payments toward the project; however, the Fiscal Court is obligated to provide operation, maintenance, insurance and repair of the project.

The lease is secured by a security interest in any and all right, title and interest of the County in the Courthouse that constitute personal property and in all additions, attachments, accessions, and substitutions thereto, and any proceeds there from.

E. Carver Farms Subdivision Roads

On December 22, 2005, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$79,000 at a variable interest rate in order to finance the construction of roads in the Carver Farms Subdivision so that they may be a part of the county road system. Payments of this debt are to be made by the property owners located in the Carver Farms Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on December 20, 2030.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

E. Carver Farms Subdivision Roads (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 1,773	\$ 2,988
2012	1,885	2,916
2013	2,004	2,836
2014	2,131	2,752
2015	2,265	2,662
2016-2020	13,661	11,773
2021-2025	18,550	8,533
2026-2030	25,189	4,136
2031	1,473	65
Totals	<u>\$ 68,931</u>	<u>\$ 38,661</u>

F. Creekside Subdivision Roads

On December 22, 2005, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$157,000 at a variable interest rate in order to finance the construction of roads in the Creekside Subdivision so that they may be a part of the county road system. Payments of this debt are to be made by the property owners located in the Creekside Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Counties Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on December 20, 2030.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 3,014	\$ 4,356
2012	3,204	4,234
2013	3,406	4,098
2014	3,621	3,956
2015	3,850	3,803
2016-2020	23,215	16,398
2021-2025	31,525	10,893
2026-2029	30,849	3,398
Totals	<u>\$ 102,684</u>	<u>\$ 51,136</u>

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

G. Fire Truck #1

On May 2, 2007, Gallatin County Fiscal Court entered into an agreement with the United States Department of Agriculture for the purpose of assuming a loan acquired by the Gallatin County Fire Department in March 21, 2001 for a fire truck. The original principal amount was \$136,161. The termination date of the agreement is March 21, 2021. The interest rate for the loan is fixed at 5.0%.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 8,010	\$ 5,689
2012	8,410	5,289
2013	8,831	4,868
2014	9,272	4,427
2015	9,736	3,963
2016-2020	56,262	12,011
2021	13,047	652
Totals	<u>\$ 113,568</u>	<u>\$ 36,899</u>

H. Fire Truck #2

On May 2, 2007, Gallatin County Fiscal Court entered into an agreement with the United States Department of Agriculture for the purpose of assuming a loan acquired by the Gallatin County Fire Department in March 21, 2001 for a fire truck. The original principal amount was for \$239,263. The termination date of the agreement is March 21, 2021. The interest rate for the loan is fixed at 4.75%.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 14,201	\$ 9,459
2012	14,876	8,784
2013	15,582	8,078
2014	16,322	7,338
2015	17,098	6,562
2016-2020	98,488	19,830
2021	22,587	1,073
Totals	<u>\$ 199,154</u>	<u>\$ 61,124</u>

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

I. Scenic View Road

On September 4, 2007, Gallatin County entered into a twenty-five year lease with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$138,283 at a variable rate of interest in order to finance the construction of roads in Scenic View subdivision so that they may be part of the County road system. Payments of this debt are to be made by the property owners located in the Scenic View Subdivision. Payments are collected by Gallatin County and distributed to the Kentucky Association of Leasing Trust (KACoLT) in order to meet the debt requirements. Principal and interest are paid on a monthly basis until termination of the lease on September 20, 2032.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 2,837	\$ 5,487
2012	3,016	5,374
2013	3,206	5,245
2014	3,408	5,111
2015	3,623	4,966
2016-2020	21,850	22,374
2021-2025	29,671	17,192
2026-2030	40,291	10,158
2031-2033	22,564	1,635
Totals	<u>\$ 130,466</u>	<u>\$ 77,542</u>

J. Glencoe Fire Truck

On April 30, 2008, Gallatin County Fiscal Court entered into an agreement with the United States Department of Agriculture for the purpose of securing a loan to purchase a fire truck for the city of Glencoe. The original principal amount was \$120,250. The loan is for seven years with payments of \$20,314 for principal and interest due on April 30 of each year through April 30, 2015. The interest rate for the loan is fixed at 4.375%.

Principal payment requirements and schedule interest for the term of the agreement are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 16,328	\$ 4,266
2012	17,105	3,489
2013	5,796	1,339
Totals	<u>\$ 39,229</u>	<u>\$ 9,094</u>

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

K. Interest Rate Swaps

Certain of the Fiscal Court's leases have been fixed through the use of interest rate swaps. The interest rate swaps are exchange agreements between the trustee and a third party financial institution, whereby the third party financial institution pays the trustee the variable rate interest within the swap (which is equivalent to the variable rate within the lease) and the Fiscal Court pays the fixed rate stated by the swap. Under the terms of lease agreements the trustee has the right to charge costs associated with the interest rate swap to the Fiscal Court through additional future rentals.

The swap becomes effective on the date that the County exercises its option to convert the variable interest rate in the lease to a fixed rate. The notional amount of the swap at that exercise date is equivalent to the then outstanding principal balance. The notional amount reduces over the term of the lease by the same amount as the principal payments on the lease, as they fall due. The swap terminates on the same date as the final principal payment is due on the respective lease.

The interest rate swaps in effect as of June 30, 2010 are as follows:

	Date Effective	Termination Date	Notional Amount at June 30, 2010	Settlement Amount at June 30, 2009
Courthouse Renovations - A	June 30, 2006	December 1, 2026	\$ 2,267,254	\$ 345,760
Courthouse Renovations - B	June 28, 2007	June 1, 2027	\$ 340,598	\$ 45,810

The settlement values above are calculated using the zero-coupon rate and are considered by the Fiscal Court to represent the fair value of the interest rate swaps at June 30, 2010. The variable rate on all of the swaps is the USD-BMA Municipal Swap Index.

The swaps expose the Fiscal Court to the following risks that could give rise to additional rentals:

Credit risk: Credit risk is the risk that the third party financial institution will not fulfill its obligations to pay the variable rate interest. All third party financial institutions party to the interest rate swaps have S&P credit quality ratings of AA-. The value of the transaction to the Fiscal Court depends upon the third party financial institutions maintaining their perceived creditworthiness in the municipal marketplace and fulfilling their obligations under the interest rate swap agreements. Should the third party financial institutions fail to fulfill their obligations the Fiscal Court will be required to pay additional rentals for any costs associated with terminating the swap agreement, plus the costs of entering into an interest rate swap agreement with an alternative financial institutions. Should an alternative agreement not be available, the Fiscal Court would be required to make payments at the variable interest rate contained within the lease.

Basis risk: Basis risk is a term used to refer to a mismatch in the source of the variable interest rates in the lease agreement and the swap agreement. When an agency uses an interest rate swap agreement in conjunction with a variable rate debt instrument, the variable rate index used to calculate the payments due under the swap agreement (in this case, the USD-BMA Municipal Swap Index) may not match the rate at which the variable rate debt is remarketed (the interest rate on KACoLT's variable rate bonds, which is reset on a daily basis). This mismatch could potentially be magnified if KACoLT were to administer the program in such a way that the underlying bonds were determined to be taxable obligations, which would be considered an event of default according to the terms of the letter of credit agreement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

K. Interest Rate Swaps (Continued)

Termination risk: Termination risk is the risk that a derivative's unscheduled end will affect the Fiscal Court's asset/liability strategy or will present the Fiscal Court with potentially significant unscheduled termination payments to the trustee. For example, the Fiscal Court relies on the interest rate swaps to insulate it from the possibility of increasing interest rate payments. If the swap has an unscheduled termination, that benefit would not be available. The Fiscal Court would also be required to pay any costs associated with terminating the swap agreement.

Market access risk: Market-access risk is the risk that the Fiscal Court will not be able to enter credit markets or that credit will become more costly. If the Fiscal Court is required to pay additional rentals or be required to pay higher variable rates, the Fiscal Court's credit rating could suffer and additional debt could become more expensive and more difficult to sell. The Fiscal Court may also be required to pay additional rentals for fees relating to any letters of credit being used to collateralize the interest rate swaps. Furthermore, if interest rates in the municipal bond market were to decrease and the Fiscal Court wanted to refinance the debt at a lower interest rate, the Fiscal Court would first have to terminate the swap agreement. When interest rate swap agreements are terminated prior to the contract's maturity, one party to the agreement will owe the other party a termination payment that reflects the value of the swap under current market conditions. It is likely that if rates have decreased to the extent that the Fiscal Court would want to refinance the debt, the Fiscal Court would be the party that would have to make a termination payment. The use of the interest rate swap agreement may limit the Fiscal Court's flexibility in managing the lease obligations going forward.

L. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 4,572,448	\$	\$ 239,342	\$ 4,333,106	\$ 184,846
Governmental Activities					
Long-term Liabilities	<u>\$ 4,572,448</u>	<u>\$ 0</u>	<u>\$ 239,342</u>	<u>\$ 4,333,106</u>	<u>\$ 184,846</u>

Note 5. Interest On Long-term Debt

Debt Service on the Statement of Activities includes \$209,387 in interest on financing obligations.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 6. Employee Retirement System (Continued)

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

The county's contribution for FY 2008 was \$238,645, FY 2009 was \$205,281, and FY 2010 was \$259,022.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

On July 15, 1999, the Gallatin County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2010, Gallatin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

Prior year balances were adjusted by three dollars due to rounding.

GALLATIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

GALLATIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,206,600	\$ 1,209,493	\$ 1,290,687	\$ 81,194
In Lieu Tax Payments	118,000	132,476	132,477	1
Excess Fees	2,000	185,452	186,523	1,071
Licenses and Permits	64,000	69,000	75,462	6,462
Intergovernmental Revenue	121,150	175,503	161,694	(13,809)
Charges for Services	10,000	13,375	13,376	1
Miscellaneous	13,700	52,793	65,302	12,509
Interest	8,500	8,500	8,833	333
Total Revenues	<u>1,543,950</u>	<u>1,846,592</u>	<u>1,934,354</u>	<u>87,762</u>
EXPENDITURES				
General Government	831,614	866,960	752,872	114,088
Protection to Persons and Property	215,084	243,635	184,535	59,100
General Health and Sanitation	79,202	83,410	78,522	4,888
Social Services	73,000	73,072	24,913	48,159
Recreation and Culture	25,000	81,797	81,796	1,000
Debt Service	60,000	110,000	107,525	2,475
Capital Projects	90,500	61,983	35,054	26,929
Administration	657,900	738,085	715,688	22,397
Total Expenditures	<u>2,032,300</u>	<u>2,258,942</u>	<u>1,980,905</u>	<u>279,036</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(488,350)</u>	<u>(412,350)</u>	<u>(46,551)</u>	<u>365,799</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	101,464	101,464	600	(100,864)
Transfers To Other Funds	<u>(376,973)</u>	<u>(376,973)</u>	<u>(399,993)</u>	<u>(23,020)</u>
Total Other Financing Sources (Uses)	<u>(275,509)</u>	<u>(275,509)</u>	<u>(399,393)</u>	<u>(123,884)</u>
Net Changes in Fund Balance	(763,859)	(687,859)	(445,944)	241,915
Fund Balance - Beginning	<u>763,859</u>	<u>763,859</u>	<u>915,518</u>	<u>151,659</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 76,000</u>	<u>\$ 469,574</u>	<u>\$ 393,574</u>

GALLATIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 392,370	\$ 392,370	\$ 589,852	\$ 197,482
Charges for Services	500	500	2,555	2,055
Miscellaneous	58,600	58,600	81,267	22,667
Interest	20,500	20,500	18,630	(1,870)
Total Revenues	471,970	471,970	692,304	220,334
EXPENDITURES				
Roads	907,000	1,059,800	724,315	335,485
Debt Service	58,000	58,000	47,608	10,392
Capital Projects	150,000	9,900		9,900
Administration	68,465	55,765	54,035	1,730
Total Expenditures	1,183,465	1,183,465	825,958	357,507
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(711,495)	(711,495)	(133,654)	577,841
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(101,464)	(101,464)		101,464
Total Other Financing Sources (Uses)	(101,464)	(101,464)		101,464
Net Changes in Fund Balance	(812,959)	(812,959)	(133,654)	679,305
Fund Balance - Beginning	812,959	812,959	828,314	15,355
Fund Balance - Ending	\$ 0	\$ 0	\$ 694,660	\$ 694,660

GALLATIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

STATEGRANTS FUND			
	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	
REVENUES			
Intergovernmental Revenue	\$	\$ 349,731	\$ 559,878
Total Revenues		349,731	559,878
EXPENDITURES			
General Health and Sanitation			352,726
Capital Projects		349,731	207,152
Total Expenditures		349,731	559,878
Net Changes in Fund Balance			
Fund Balance - Beginning			35
Fund Balance - Ending	\$ 0	\$ 0	\$ 35

GALLATIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	AMBULANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ 10,256	\$ 10,256	\$ 10,084	\$ (172)
Charges for Services	510,000	510,000	655,446	145,446
Miscellaneous	75	34,326	35,331	1,005
Interest	100	100	151	51
Total Revenues	520,431	554,682	701,012	146,330
EXPENDITURES				
Protection to Persons and Property	646,100	764,780	764,563	217
Administration	82,975	74,546	74,495	51
Total Expenditures	729,075	839,326	839,058	268
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(208,644)	(284,644)	(138,046)	146,598
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			(600)	(600)
Transfers To Other Funds	157,644	157,644	82,000	(75,644)
Total Other Financing Sources (Uses)	157,644	157,644	81,400	(76,244)
Net Changes in Fund Balances	(51,000)	(127,000)	(56,646)	70,354
Fund Balances - Beginning	51,000	51,000	87,852	36,852
Fund Balances - Ending	\$ 0	\$ (76,000)	\$ 31,206	\$ 107,206

GALLATIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

ECONOMIC ASSISTANCE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)
	Original	Final	
			Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ 3,000	\$ 3,000	\$ 1,742
Total Revenues	3,000	3,000	(1,258)
EXPENDITURES			
Administration	220,000	220,000	220,000
Total Expenditures	220,000	220,000	220,000
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(217,000)	(217,000)	1,742
Net Changes in Fund Balances	(217,000)	(217,000)	1,742
Fund Balances - Beginning	217,000	217,000	222,262
Fund Balances - Ending	\$ 0	\$ 0	\$ 224,004

GALLATIN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance-Modified Cash Basis* differs from the *Budgetary Comparison Schedule* for the General Fund in intergovernmental revenue and debt service by \$228,850 due to payments by the Administrative Office of the Courts directly to the trustee for debt service.

**GALLATIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2010

GALLATIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	Jail Fund	LGEA Fund	911 Fund	911 Wireless Fund
ASSETS				
Cash and Cash Equivalents	\$ 26,396	\$ 105,248	\$ 12,103	\$ 60,519
Total Assets	<u>26,396</u>	<u>105,248</u>	<u>12,103</u>	<u>60,519</u>
FUND BALANCES				
Reserved for:				
Encumbrances		9,025		
Unreserved:				
Capital Projects Fund				
Special Revenue Funds	<u>26,396</u>	<u>96,223</u>	<u>12,103</u>	<u>60,519</u>
Total Fund Balances	<u>\$ 26,396</u>	<u>\$ 105,248</u>	<u>\$ 12,103</u>	<u>\$ 60,519</u>

The accompanying notes are an integral part of the financial statements.

GALLATIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
(Continued)
June 30, 2010

Tourism Fund	AOC Fund	Courthouse Renovations Fund	Total Non-Major Governmental Funds
<u>\$ 29,806</u>	<u>\$ 106,748</u>	<u>\$ 33,271</u>	<u>\$ 374,091</u>
<u>29,806</u>	<u>106,748</u>	<u>33,271</u>	<u>374,091</u>
			9,025
<u>29,806</u>	<u>106,748</u>	<u>33,271</u>	<u>33,271</u>
			<u>331,795</u>
<u>\$ 29,806</u>	<u>\$ 106,748</u>	<u>\$ 33,271</u>	<u>\$ 374,091</u>

The accompanying notes are an integral part of the financial statements.

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GALLATIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

GALLATIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	Jail Fund	LGEA Fund	911 Fund	911 Wireless Fund
REVENUES				
Taxes	\$	\$	\$ 68,528	\$
Intergovernmental	102,540	171,797		93,324
Miscellaneous	613	9,053	3,013	
Interest	86	193	67	99
Total Revenues	<u>103,239</u>	<u>181,043</u>	<u>71,608</u>	<u>93,423</u>
EXPENDITURES				
Protection to Persons and Property	277,775		187,648	10,308
General Health and Sanitation		607		
Social Services		500		
Recreation and Culture		119,462		
Debt Service		52,663		
Capital Projects				
Administration	16,295	8,693	28,797	
Total Expenditures	<u>294,070</u>	<u>181,925</u>	<u>216,445</u>	<u>10,308</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(190,831)</u>	<u>(882)</u>	<u>(144,837)</u>	<u>83,115</u>
Other Financing Sources (Uses)				
Transfers from Other Funds	200,000		142,217	
Transfers to Other Funds				(97,217)
Total Other Financing Sources (Uses)	<u>200,000</u>		<u>142,217</u>	<u>(97,217)</u>
Net Change in Fund Balances	9,169	(882)	(2,620)	(14,102)
Fund Balances - Beginning	17,227	106,130	14,723	74,621
Fund Balances - Ending	<u>\$ 26,396</u>	<u>\$ 105,248</u>	<u>\$ 12,103</u>	<u>\$ 60,519</u>

The accompanying notes are an integral part of the financial statements.

GALLATIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010
(Continued)

Tourism Fund	AOC Fund	Courthouse Renovations Fund	Total Non-Major Governmental Funds
\$ 23,998	\$	\$	\$ 92,526
791	33,092		401,544
1,908			14,587
125	663	1	1,234
<u>26,822</u>	<u>33,755</u>	<u>1</u>	<u>509,891</u>
			475,731
			607
			500
52,354			171,816
			52,663
		16,800	16,800
			53,785
<u>52,354</u>	<u></u>	<u>16,800</u>	<u>771,902</u>
<u>(25,532)</u>	<u>33,755</u>	<u>(16,799)</u>	<u>(262,011)</u>
	72,993		415,210
			(97,217)
	<u>72,993</u>		<u>317,993</u>
(25,532)	106,748	(16,799)	55,982
55,338		50,070	318,109
<u>\$ 29,806</u>	<u>\$ 106,748</u>	<u>\$ 33,271</u>	<u>\$ 374,091</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenneth McFarland, Gallatin County Judge/Executive
The Honorable Kenny French, Former Gallatin County Judge/Executive
Members of the Gallatin County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gallatin County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 23, 2011. Gallatin County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gallatin County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gallatin County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gallatin County Fiscal Court's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Gallatin County's financial statements as of and for the year ended June 30, 2010, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation as item 2010-01.

The Gallatin County Judge/Executive's response to the finding identified in our audit is included in the comment and recommendation section. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

March 23, 2011

**GALLATIN COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2010

**GALLATIN COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2010

STATE LAWS AND REGULATIONS

2010-01 Expenditures Should Not Exceed Budget Appropriations

Expenditures in the State Grant fund exceeded the amount budgeted by \$210,147. The quarterly financial report indicated an amount budgeted for the expenditures; however, the amount shown on the quarterly financial report was not included on the original budget approved by Fiscal Court. KRS 68.300 prohibits expenditures in excess of budget appropriations and KRS 68.280 allows for amendment of the original budget to provide for the expenditure of unanticipated revenue. We recommend the County amend the budget to ensure appropriations do not exceed expenditures.

County Judge/Executive Kenneth McFarland Response: The state grants fund was established to account for pass thru monies that the county would receive throughout the year. We have corrected this and amended our budget to account for any new projects and pass thru monies.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
GALLATIN COUNTY FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
GALLATIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Gallatin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

